PART A: INTRODUCTORY

51. **Procedure of the Committee**

   The Audit Committee had suggested that there should be a standing item on the agendas of statutory and senior committees to ensure that members were asked to declare possible conflicts of interest at each meeting. The Committee agreed to institute this procedure.

   The Vice-Chancellor declared an interest with regard to Minute 56 (ii) as a non domiciled individual.

   Dr Clark declared an interest with regard to Minute 55 as a member of the University and Colleges Union Executive and with regard to Item 1 of ‘Straightforward and Reported Business’ (Cambridge Enterprise) as an inventor.

52. **Minutes**

   The minutes of the meeting held on 5 March 2008 were approved.

53. **Straightforward and reported business: agenda items starred as straightforward**

   A paper listing straightforward and reported business was received and is attached to the minutes. The Committee approved matters for decision contained in the confirmed list of straightforward or reported business, and received the other material.

54. **Future business and work plan**

   An updated work plan for 2007-08 was received as Paper FC(08)72.
PART B: SUBSTANTIVE BUSINESS

55. Finance and Resources

University Budget 2008-09 (preliminary)

A paper setting out the first draft Budget for 2008-09 was received (Paper FC(08)73).

The Committee noted that:

(i) the Committee would be able to comment on a further version, which would include the text of the Allocation Report, at its meeting on 7 May 2008. The paper would also be considered by the Council and Planning and Resources Committee;
(ii) the forecast for Chest outturn for 2007-08 was close to budget. Reduced income from recovery of indirect costs of research was compensated by an increased contribution from Cambridge Assessment;
(iii) the University overall and the Chest element were predicted to be in balance or in small surplus each year to 2011-2012, however there were considerable uncertainties in the predictions with regard to the pay-costs and the outcome of the 31 March 2008 valuation of the Universities Superannuation Scheme (USS);
(iv) HEFCE special funding (SRIF, Project Capital) of about £35m pa was expected to cease or be greatly reduced after 2010-11. Annual fund transfers from the operating budget for ‘strategic provision’, including capital expenditure, were proposed but were well below the required level. Higher transfers could reduce the flexibility needed to deal with uncertainties;
(v) ‘Other services rendered’ (primarily trading activity) was a growing proportion of the budget. This activity made use of University infrastructure, yet made little contribution to the Chest. Further analysis of this activity was required;
(vi) the report was an improvement on previous years with a series of tables including staff and student numbers, showing trends, the most notable being the reduction in undergraduate numbers. The aim was to increase undergraduate student numbers back to the levels of previous years;
(vii) transfers from Cambridge Assessment were an important part of the University’s budgets, however going forward larger transfers from Cambridge Assessment and transfers from the CUP would be reflected in larger strategic provision and not recurrent spending. Preliminary estimates had been made for planning purposes of occasional one-off transfers as well as regular transfers. One-off transfers allowed an allocation to strategic provision;
(viii) the predicted growth in research income for 2008-09 was based on detailed research, growth for subsequent years required further research; and
(ix) it would be useful for the Committee to examine future projections of staff and student numbers, and to understand the assumptions underlying projections of income and expenditure.

The Committee welcomed the improved presentation of the data compared to previous years.

Action: Professor Minson
56. **Taxation**

Mr. Sykes, Deputy Director (Financial Services and Taxation) attended for the following items.

(a) **VAT**

Paper FC(08)74 prepared by the Deputy Director (Financial Services and Taxation) was received.

The Committee noted that:

(i) the University had been pursuing an argument with HMRC as to the VAT status of its provision of degree level education;

(ii) the issue was whether in providing education, the University was engaged in a non-business activity or a VAT exempt business activity. Whilst the effect of either position is that VAT was not charged on the income derived from education, treatment as a non-business activity would enable the University to extend its relief from standard rated VAT and climate change levy on utilities and on the construction of new buildings, currently worth up to £1.3m pa;

(iii) in order to be successful the University would need to demonstrate that it was a body governed by public law; that in providing degree level education, it was acting under a special legal regime (the Statutes and Ordinances); and that the effect of the European legislation on which the argument is based was to treat a transaction as a non-business transaction;

(iv) the case was heard in Tribunal in early December, and the decision was released on 12 March 2008 after delays by HMRC, including the case being stood behind that of Edinburgh Telford College which was successful with the same argument. The decision was against the University; and

(v) a note from Counsel set out the basis for an appeal in the High Court with ‘reasonable’ prospects for success. The likely cost would be in the region of £60k, with further potential costs were the University to be successful and the HRMC were to take the matter to the Appeal Court.

The Committee agreed that the University should appeal to the High Court against the decision of the VAT and Duties Tribunal in respect of the VAT status of its education activity.

**Action:** Mr Sykes

(b) **Taxation of Non-domiciled residents**

Paper FC(08)75 prepared by the Deputy Director (Financial Services and Taxation) for discussion.

The Committee noted that:

(i) a new tax provision introduced in the Finance Act 2008 (FA 2008) could impact on the University’s ability to recruit or retain key staff;
(ii) if an individual was resident and domiciled in the UK, then they were liable to pay income tax on any earned income and capital gains arising in any country. If an individual was resident in the UK, but domiciled in another country then pre FA 2008, they would have been taxed on any income and gains arising in the UK, but only on income arising in other countries where that income was brought into (remitted to) the UK;

(iii) the FA 2008 introduced a new provision which affects individuals who are resident but not domiciled in the UK. Under the new rules, where an individual has been resident in the UK for more than seven of the last ten years, they would in addition to paying tax on any income earned in or remitted to the UK, also be liable to either pay an annual tax charge of £30,000 in respect of any income and gains arising outside the UK and not transferred to the UK or pay UK tax on all income gains irrespective of the country in which the income arises. There were some exemptions and reliefs;

(iv) the University was likely to have a number of employees or prospective employees who would fall within the provisions of the new charge. At the very least, all of these individuals would be faced with additional ‘administrative’ costs; and

(v) the Russell Group had been lobbying Government on the new provision.

The Committee agreed that current and prospective employees who would be affected should be made aware of the implications of the new provisions in order to inform them and bring clarity to an issue that had been widely reported in the media. This should be in the form of a covering letter that was ‘for information’ and stated that the University was not providing advice on personal taxation with a generic briefing note or similar materials from one of the large accountancy firms or auditors attached. It would also be useful to have information on the countries which had a double tax relief treaty with the UK.

Action: Mr Sykes

Vice-Chancellor
7 May 2008
Finance Committee 15 April 2008: Straightforward and reported business submitted for decision or report

1. **Committees**

   To receive the Minutes from the following Committees:

   - Audit Committee – 13 March 2008

   Noted.

2. **Investments**

   (i) Deposit Account – Authorised Investment Limits

   (ii) Barclays Global Investors Fund

   Noted.

3. **University Reports and Financial Statements:**

   Year-end Timetable circulated. Noted.

4. **Accounts**

   Bad Debts and Write-offs. Approved.

5. **University Reporter**

   Price Increase. Approved.

6. **Sealings**

   List attached. Noted.